



Mitchell E. Bean, Director
Rebecca Ross, Senior Economist

REVENUE REVIEW

**Quarterly
Revenue Report
for the
State of Michigan**

FEBRUARY 2006

House Fiscal Agency
P.O. Box 30014
Lansing, MI 48909-7514
Phone: 517-373-8080
FAX: 517-373-5874
www.house.mi.gov/hfa

TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

<u>1st Qtr FY 2004-05</u>	<u>1st Qtr FY 2005-06</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$5,479.7 million	\$5,442.9 million	-0.7%	-0.7%

Revenue collections for first quarter (November–January) fiscal year (FY) 2005-06 were lower than first quarter FY 2004-05 collections by \$36.8 million or 0.7%. This decline was in contrast to the 6.5% increase posted in the fourth quarter of FY 2004-05.

INCOME TAX (NET)

<u>1st Qtr FY 2004-05</u>	<u>1st Qtr FY 2005-06</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$1,906.0 million	\$1,944.4 million	2.0%	2.0%

Income tax revenue consists of three components— withholding, annual payments, and quarterly payments. Withholding payments are based on workers’ earnings and make up almost 85% of gross income tax collections. Annual and quarterly payments are based on self-employment earnings and other income sources, such as capital gains.

Net income tax collections, which include income tax refunds, for first quarter FY 2005-06 were higher than first quarter FY 2004-05 collections by \$38.4 million or 2.0%. Withholding payments were down 1.0%, quarterly payments and annual payments were up 20.2%, and refunds were down 4.4%.

SALES AND USE TAXES

<u>1st Qtr FY 2004-05</u>	<u>1st Qtr FY 2005-06</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$2,074.9 million	\$2,040.4 million	-1.7%	-1.7%

Sales tax collections are derived from the sale of taxable items such as motor vehicles, furniture, apparel, food consumed at restaurants, and other general merchandise. The use tax is applied to telephone services, leased motor vehicles, hotels and motels, gas and electric utilities, and remote sales.

Sales and use tax collections for first quarter FY 2005-06 were lower than the year-ago quarter by \$34.5 million or 1.7%. Sales tax due to motor vehicle sales decreased 13.0% while all other sales tax collections were up 0.7% in first quarter FY 2005-06 relative to the year-ago first quarter.

SINGLE BUSINESS AND INSURANCE TAXES

<u>1st Qtr FY 2004-05</u>	<u>1st Qtr FY 2005-06</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$539.1 million	\$504.3 million	-6.5%	-6.5%

Single business tax is applied to the value added of business activities; insurance tax is based on insurance premiums. For first quarter FY 2005-06, single business and insurance tax collections were below the year-ago first quarter by \$34.8 million or 6.5%.

OTHER REVENUE

<u>1st Qtr FY 2004-05</u>	<u>1st Qtr FY 2005-06</u>	<u>1st Qtr % Change</u>	<u>YTD % Change</u>
\$959.7 million	\$953.8 million	-0.6%	-0.6%

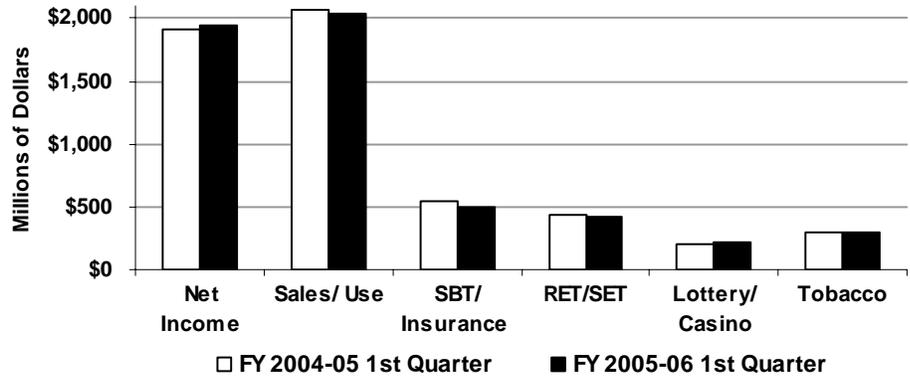
Other revenue—which includes primarily the state education tax (SET), the real estate transfer (RET) tax, the tobacco tax, and revenue from the lottery—for first quarter FY 2005-06 was down \$5.9 million or 0.6% from the first quarter of FY 2004-05.

The weakness in withholding and sales/use tax revenue reflects the state's continued weak economic performance and, to some degree, timing of payments received.

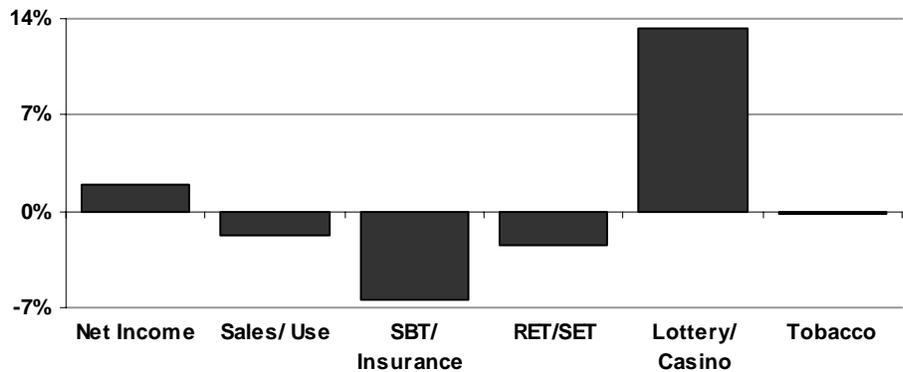
Based on HFA target estimates, first quarter revenue is up an estimated \$35 million (\$10 million GF/GP; \$25 million SAF), but still within the margin of error.



**State of Michigan Revenue
1st Quarter Comparison**



**State of Michigan Revenue
% Change From Year-Ago Quarter and Fiscal Year-to-Date**



Revenue Quarterly Review: 1st Quarter (November–January) FY 2005-06 (Millions of Dollars)

	FY 2005-06 1st Quarter	Percent Change from Year-Ago 1st Quarter	FY 2005-06 Year-to-Date	Change from Previous Fiscal Year-to-Date		FY 2005-06 January Consensus Forecast Growth
				Dollar	Percent	
Annual Income Tax	\$ 35.1	13.6%	\$ 35.1	\$ 4.2	13.6%	-1.3%
Quarterly Income Tax	268.3	21.1%	268.3	46.7	21.1%	4.2%
Withholding	1,738.8	-1.0%	1,738.8	(17.0)	-1.0%	2.0%
Subtotal	2,042.2	1.7%	2,042.2	33.9	1.7%	1.9%
Income Tax Refunds	97.8	-4.4%	97.8	(4.5)	-4.4%	5.3%
Net Income Tax	1,944.4	2.0%	1,944.4	38.4	2.0%	1.0%
Sales Tax	1,711.1	-0.7%	1,711.1	(11.5)	-0.7%	3.0%
Use Tax	329.3	-6.5%	329.3	(23.0)	-6.5%	2.9%
Subtotal	2,040.4	-1.7%	2,040.4	(34.5)	-1.7%	3.0%
Single Business Tax	444.5	-8.7%	444.5	(42.1)	-8.7%	-5.0%
Insurance Tax	59.8	13.9%	59.8	7.3	13.9%	2.2%
Subtotal	504.3	-6.5%	504.3	(34.8)	-6.5%	-4.2%
Casino Wagering	37.3	8.1%	37.3	2.8	8.1%	2.5%
Tobacco Tax	289.4	-0.2%	289.4	(0.6)	-0.2%	-1.6%
Lottery	186.2	14.4%	186.2	23.4	14.4%	2.6%
Industrial/CommFacility Taxes	15.8	-57.3%	15.8	(21.2)	-57.3%	-1.6%
Real Estate Transfer (RET) Tax	83.4	8.6%	83.4	6.6	8.6%	-1.1%
State Education Tax (SET)	341.7	-4.7%	341.7	(16.9)	-4.7%	5.0%
Subtotal	953.8	-0.6%	953.8	(5.9)	-0.6%	2.1%
TOTAL	\$ 5,442.9	-0.7%	\$ 5,442.9	\$ (36.8)	-0.7%	1.5%

NOTE: Consensus revenue figures reflect enacted tax changes. All revenue, except for Lottery, is on an accrual basis and begins with November collections.